

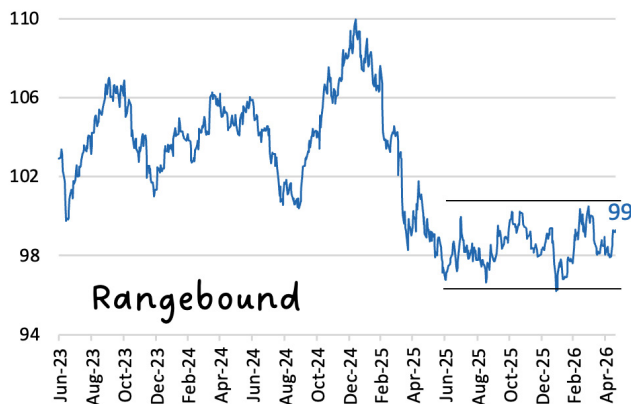


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

May 20, 2026

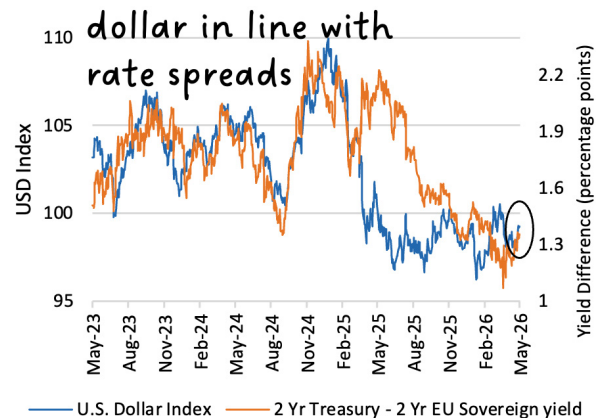
- ▶ Despite geopolitical stress, the dollar has remained broadly flat year-to-date, reflecting a balance of forces, including still supportive but no longer widening rate differentials, less concentrated safe-haven demand, and a gradual erosion of U.S. macro advantages at the margin.
- ▶ The U.S. Dollar Index has been range bound between 97 and 100 over the past year. While short term dollar moves have generally tracked news surrounding the Strait of Hormuz, the magnitude of those moves has been far smaller than the swings in oil prices, suggesting the dollar has become only partially tied to the energy narrative.
- ▶ We continue to believe both sides are economically incentivized to restore shipping flows, though neither side currently appears willing to make the concessions necessary for a deal. Just as importantly, we do not see the degree of economic pain needed to force either side to the table, raising the risk of extended closure. That said, once markets begin to believe reopening is becoming more likely, we would expect the dollar to weaken.
- ▶ Historically the primary near-term driver of currencies has been relative short-term interest rates. Based on a simple regression, the dollar is currently trading in line with what one would expect based on the spread between U.S. 2-year Treasury yields and a weighted average of the 2-year sovereign yields across developed international markets. In other words, for all the geopolitical drama, the bond market is still driving the bus.
- ▶ Over the longer term, however, we continue to believe the backdrop for the dollar remains challenged. Large fiscal deficits, elevated policy uncertainty, and gradual reserve diversification away from the dollar remain meaningful structural headwinds.
- ▶ Taken together, while near-term dollar movements may continue to swing with geopolitical headlines and relative interest rates, we see little evidence that the structural headwinds facing the dollar have diminished. As a result, we maintain our view that the dollar has likely peaked on a secular basis, reinforcing a supportive backdrop for U.S.-based investors maintaining exposure to international equities.

U.S. Dollar Index



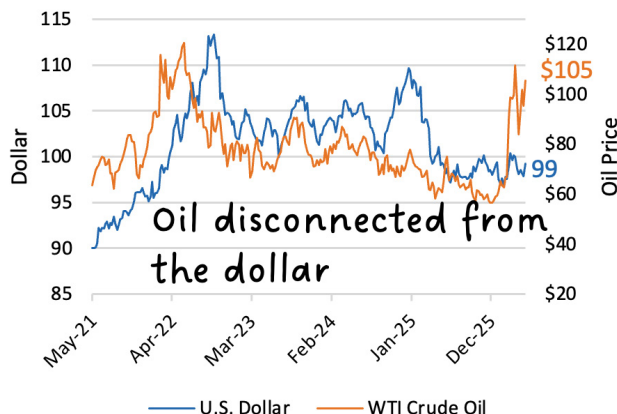
Source: Bloomberg. 3 years of daily data through May 19, 2026.

U.S. Dollar Index and Relative Interest Rates



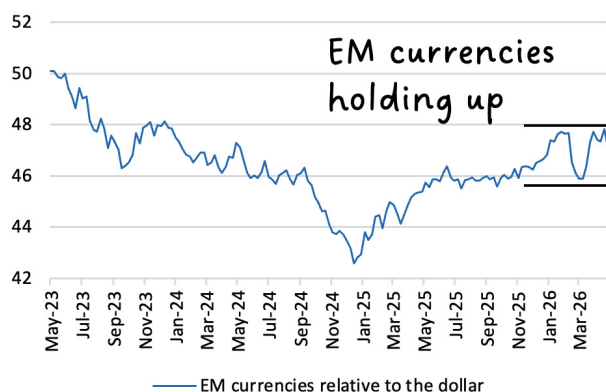
Source: Bloomberg. 3 years of daily data through May 18, 2026. The weighted yield spread is the difference between U.S. 2-year Treasury yields and the weighted average of 2-year yields from countries in the dollar index.

U.S. Dollar and Oil Prices



Source: Bloomberg. 5 years of weekly data through May 15, 2026. West Texas Intermediate (WTI) crude is primarily sourced in the U.S. Permian Basin.

J.P. Morgan EM Currency Index



Source: Bloomberg. 3 years of weekly data through May 15, 2026.

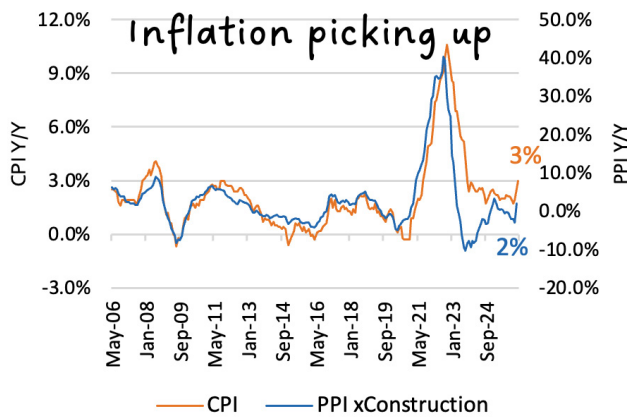


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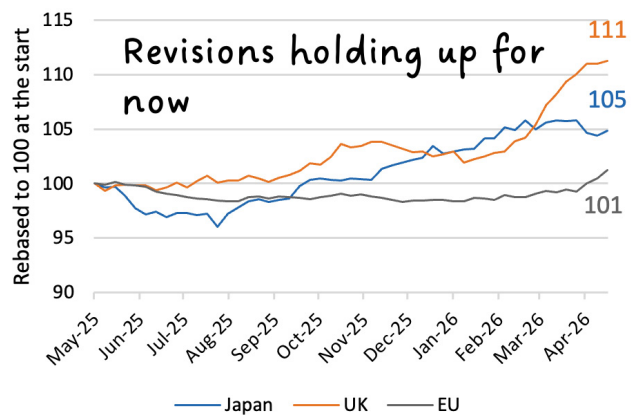
- ▶ We maintain a neutral strategic allocation to developed international equities. While the Iran conflict has introduced a new source of uncertainty, we see several important offsets to maintain a strategic allocation.
- ▶ The key risk may not be the absolute level of oil prices, but rather the duration of elevated energy uncertainty and its impact on inflation, interest rates, and earnings expectations. Importantly, Europe and the UK are better positioned than during prior crises, having diversified energy sources and demonstrated greater flexibility in managing demand and storage.
- ▶ The markets have grown more comfortable with the disruption than many initially expected. However, markets may be underestimating the delayed inflationary effects of prolonged supply disruptions. Energy costs tend to hit immediately, but food and agricultural inflation often emerge later as higher fertilizer, feed, and transportation costs gradually work through the system. Such a backdrop could make it more difficult for interest rates to move lower, particularly in more inflation-sensitive regions like Europe. The ECB is expected to raise rates at their next meeting.
- ▶ Beneath relatively stable headline earnings estimates, revision breadth has weakened meaningfully. While aggregate European EPS forecasts have held up reasonably well, much of the resilience has come from energy and select AI-related companies, while broader earnings momentum continues to soften.
- ▶ Markets are ultimately forward-looking. Once investors gain confidence that shipping routes will normalize and energy pressures will ease, developed international equities could respond quickly through lower expected input costs, easing inflation concerns, and potentially lowering rates.
- ▶ Fiscal policy has become more supportive. Increased defense spending and broader industrial policy initiatives are providing a tailwind to growth, helping to offset some of the drag from higher energy costs.
- ▶ Over the longer term, developed international equities continue to offer attractive characteristics, including lower valuations, higher dividend yields, potential currency tailwinds, and less reliance on a narrow group of U.S. mega-cap stocks.

Eurozone Inflation Measures



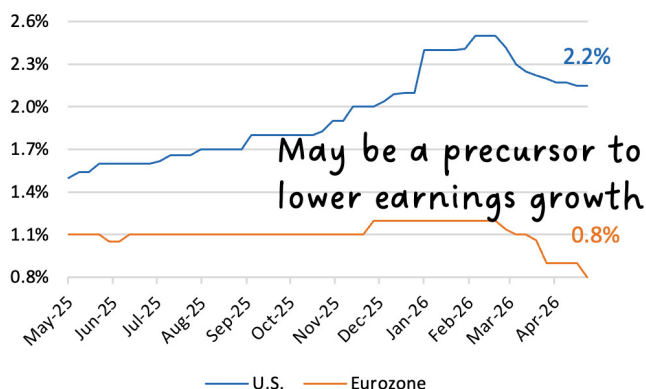
Source: Bloomberg. 20 years of monthly data through Apr 2026.

2026 EPS Revisions (local currency)



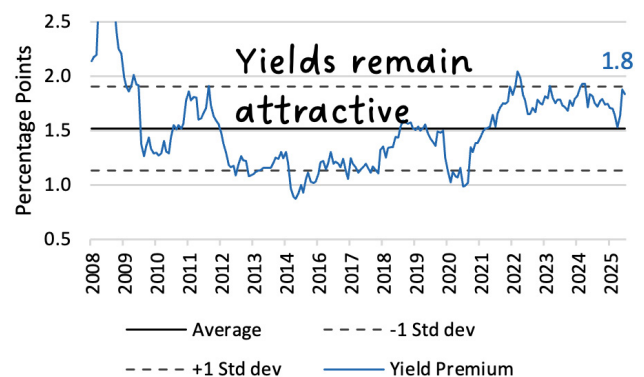
Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through May 12, 2026.

2026 GDP Forecast



Source: Bloomberg. 1 year of weekly data through May 15, 2026. Based on Bloomberg's survey of economists.

Difference in Dividend Yield: MSCI EAFE Index - S&P 500 Index



Source: Bloomberg. 18 years of monthly data through Apr 2026. MSCI EAFE Index month end yield 3.0%. S&P 500 Index month end yield 1.2%.

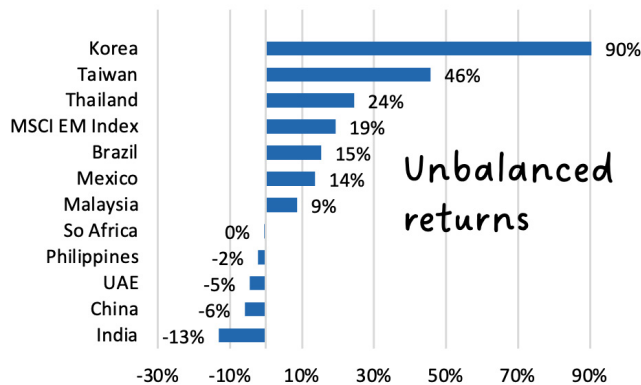


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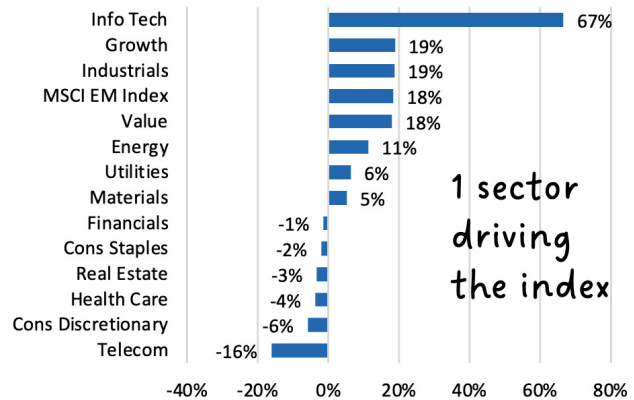
- ▶ Emerging markets have a more complicated picture. In late March we tactically shifted from a slight overweight to a slight underweight in emerging market (EM) equities. While the long-term case for EM remains intact, we became increasingly concerned about elevated near-term risks stemming primarily from the energy shock tied to the Iran conflict.
- ▶ Asia represents roughly 80% of the MSCI EM index and remains particularly exposed given its reliance on imported Middle East energy. Disruptions to the Strait of Hormuz are raising prices and constraining supply, which may ultimately weigh on economic growth via demand destruction.
- ▶ So far, however, our tactical move has not helped. Remarkably, just three semiconductor stocks, TSMC, Samsung, and SK Hynix, have kept EM near the top of the performance ladder. Excluding those three companies, the EM index looks much weaker.
- ▶ This underscores the increasingly concentrated nature of EM returns. A small number of stocks are driving index outcomes, increasing both stock-specific and sector-specific risk. While semiconductor demand remains strong, the pace of recent outperformance may be difficult to sustain given elevated expectations.
- ▶ China and India, in particular, are showing signs of softer underlying demand and economic fragility. Chinese economic data recently disappointed, with retail sales and industrial production slowing sharply amid weak consumer confidence and rising geopolitical uncertainty. India has also faced mounting pressure from rising import costs and capital outflows as higher energy prices strain foreign exchange reserves.
- ▶ Taken together, EM fundamentals remain constructive over the long term, but narrow leadership and elevated energy-related risks support our more cautious tactical positioning.

YTD Total Returns (in USD) by Country



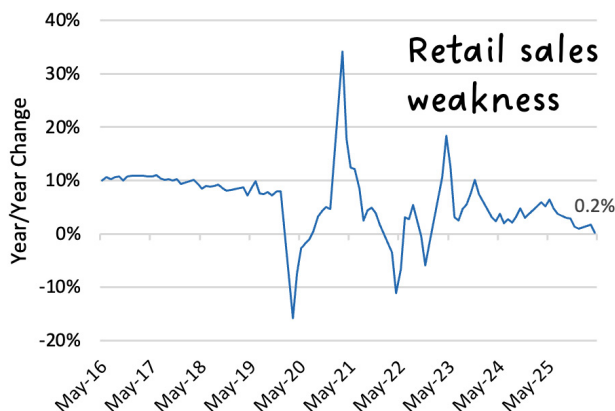
Source: Bloomberg. MSCI EM index data as of May 15, 2026.

YTD Price Return (in USD) by Sector



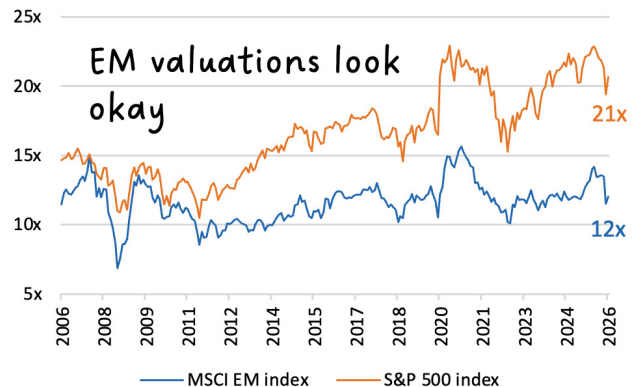
Source: Bloomberg. MSCI EM index data as of May 15, 2026.

China Retail Sales



Source: Bloomberg. 10 years of monthly observations through Apr 2026.

Forward P/E Ratios



Source: Bloomberg. 20 years of monthly observations through Apr 2026.



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The Indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible.

Total Net Returns in USD							EPS Growth Estimate	
	April 2026	YTD	2025	2024	2023	Index Weight	2026	2027
MSCI EAFE	7.6%	6.4%	31.9%	4.3%	18.9%	100%	NA*	NA*
MSCI United Kingdom	5.2%	7.3%	35.1%	7.5%	14.1%	13%	20%	6%
MSCI Japan	9.2%	10.8%	25.1%	8.7%	20.8%	20%	12%	13%
MSCI Europe	7.9%	3.5%	36.6%	1.0%	22.7%	52%	11%	9%
MSCI EM	14.7%	14.6%	34.4%	8.1%	10.3%	100%	NA*	NA*
MSCI China	3.6%	-5.6%	31.4%	19.7%	-11.0%	23%	7%	16%
MSCI India	9.2%	-10.6%	4.3%	12.4%	21.3%	12%	8%	12%
MSCI Taiwan	26.2%	37.8%	39.8%	35.1%	31.3%	25%	45%	25%
MSCI Korea	38.2%	61.3%	100.8%	-23.1%	23.6%	19%	295%	29%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	17.9x	58%	14.6x	84%	11.2x	88%	1.9x	99%
MSCI United Kingdom	15.8x	64%	12.3x	61%	9.4x	63%	1.7x	91%
MSCI Japan	20.0x	60%	16.0x	75%	12.0x	91%	1.6x	99%
MSCI Europe	17.5x	49%	14.6x	86%	11.3x	87%	1.9x	99%
MSCI EM	18.5x	88%	10.4x	67%	13.6x	99%	2.1x	98%
MSCI China	14.0x	53%	10.2x	56%	11.8x	74%	1.4x	50%
MSCI India	24.6x	81%	18.4x	78%	18.6x	87%	2.7x	84%
MSCI Taiwan	30.1x	84%	17.8x	97%	21.7x	96%	3.4x	98%
MSCI Korea	23.6x	90%	6.2x	5%	14.2x	100%	2.4x	100%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	2.8%	43%	10.5%	99%	11.4%	71%	2.1	17%
MSCI United Kingdom	3.2%	25%	11.4%	92%	12.5%	52%	2.0	36%
MSCI Japan	2.0%	56%	8.2%	100%	9.5%	86%	-0.8	17%
MSCI Europe	2.9%	45%	10.6%	99%	12.5%	67%	3.3	11%
MSCI EM	2.1%	5%	11.7%	84%	12.7%	58%	2.1	78%
MSCI China	2.2%	35%	10.5%	29%	10.5%	22%	4.2	99%
MSCI India	1.2%	28%	12.2%	83%	15.9%	59%	2.4	38%
MSCI Taiwan	1.5%	24%	12.2%	96%	18.3%	97%	0.0	4%
MSCI Korea	0.9%	1%	10.3%	99%	10.1%	59%	2.4	24%

For Index Definitions see: [TouchstoneInvestments.com/insights/investment-terms-and-index-definitions](https://touchstoneinvestments.com/insights/investment-terms-and-index-definitions)

*Local currency earnings estimates are not available for broad indexes with a mix of currencies.

Source: Bloomberg. Percent ranks are based on 30 years of monthly data as of the end of April; EPS growth estimates based on consensus bottom-up analyst estimates.



The Touchstone Asset Allocation Committee (TAAC) consisting of Crit Thomas, CFA, CAIA – Global Market Strategist, Erik M. Aarts, CIMA – Vice President and Senior Fixed Income Strategist, and Tim Paulin, CFA – Senior Vice President, Investment Research and Product Management, develops in-depth asset allocation guidance using established and evolving methodologies, inputs and analysis and communicates its methods, findings and guidance to stakeholders. TAAC uses different approaches in its development of Strategic Allocation and Tactical Allocation that are designed to add value for financial professionals and their clients. TAAC meets regularly to assess market conditions and conducts deep dive analyses on specific asset classes which are delivered via the Asset Allocation Summary document. Please contact your Touchstone representative or call 800.638.8194 for more information.

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